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**OFFICE OF CURRENT INTELLIGENCE
CENTRAL INTELLIGENCE AGENCY**

DIA and DOS
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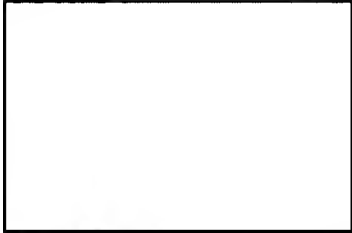
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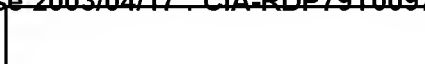
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1. BULGANIN LETTER IMPRESSES WEST GERMAN LEADERS

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25X1A Comment on:

West German government leaders feel that Bulganin's letter to Adenauer cannot be dismissed purely as an effort to disrupt NATO. They are reacting favorably to what Adenauer's State Secretary Globke calls an "evident genuine Soviet interest in avoiding a costly arms race." Adenauer, who is concerned over the cost of West German rearmament, is understood to have told his cabinet that he is impressed by the serious tone of the note and considers it a test case for NATO consultation. He is reported to believe that Moscow deliberately included in the note some points made recently to the Soviet ambassador in Bonn by opposition Socialist leader Ollenhauer.

Bonn officials point out that the Bulganin letter fits in perfectly with the German Socialist line and also comes at a time when George Kennan and Aneurin Bevan had "softened the ground in intellectual circles" for a new approach to Moscow.

German papers, however, are finding nothing basically new in the letter. The US embassy in Bonn comments that further German reaction to the letter will depend heavily on the NATO meeting.

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3. DENMARK PLANNING SIZABLE REDUCTION IN DEFENSE BUDGET

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25X1A Comment on:

The reported decision by the Danish government to reduce the 1958-59 defense budget by almost 8 percent will further hamper efforts to make an effective NATO contribution. According to a high Danish military official, Prime Minister Hansen is forcing the cut in order to hold together his weak coalition, which includes representatives of the neutralist and antidefense Radical Liberal party.

The decision to reduce the budget probably has already been made, but the government is likely to delay the announcement until after the NATO meeting for fear of "unpleasant questions" in Paris. Danish defense officials have reacted strongly against the proposed cuts, and the defense minister has even suggested that the navy or the air force might be eliminated if the reductions materialize.

Denmark already has one of the lowest per capita defense budgets among the NATO members, and the Annual Review examination last month showed the Danish defense effort to be even weaker than the preceding year. While the official Danish position has been that economic problems do not permit a higher level of defense spending,

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the internal political situation is the primary factor.

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4. SITUATION IN INDONESIA

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25X1A Comment on: [redacted]

[redacted] The Indonesian economic situation is now marked by increased unemployment and a continuing rice scarcity. Some 30,000 dockworkers in Djakarta are idle, and the National Council admits the rice situation is "precarious." Both of these developments have been aggravated by the disruption of shipping caused by the Indonesian take-over of Dutch ships which heretofore have handled the bulk of interisland trade.

25X1C [redacted] the army commanders in Central and East Java, Lt. Col. Suharto and Col. Sarbini, are planning to begin illegal barter trade in order to obtain rice directly from outside sources rather than through government channels. Although Javanese officers would have more difficulty circumventing government controls than commanders in the non-Javanese areas, they probably would still have at least limited success. Their plans would further decrease Djakarta's revenues and possibly its food supplies.

Arrests of left-wing workers, apparently the first for "arbitrary action" against the Dutch, have been reported from South Sumatra. [redacted]

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6. NEW COALITION GOVERNMENT IN PAKISTAN SWORN IN

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The new six-party government in Pakistan headed by Republican party leader Firoz Khan Noon, sworn in on 16 December, offers even less prospect of stability than that of the outgoing coalition under Moslem League leader Chundrigar.

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cabinet, which he had some difficulty in forming, is overweighted with Republican holdovers and short on representatives of East Pakistan. The other parties in the coalition support Noon but occupy few cabinet posts and are united only by common opposition to Chundrigar's policy of separate electorates for Moslems and other groups. They favor national elections no later than November 1958, under a "joint" noncommunal voting system.

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Former Prime Minister Suhrawardy provides Noon's key support in the National Assembly but refuses to allow his Awami League members to join the cabinet. Suhrawardy apparently agreed to facilitate the formation of a new government, but probably intends to use this pivotal position to promote his own return to power.

Pakistan's pro-Western orientation will be strongly maintained under Noon, who has served as foreign minister and principal UN spokesman in the last two cabinets.

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**7. INDIA AND USSR SIGN AGREEMENTS IMPLEMENTING
\$126,000,000 CREDIT**

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25X1A Comment on:

India and the USSR on 14 December signed agreements calling for the preparation of detailed studies on the five industrial projects to be undertaken under the terms of the general \$126,000,000 Soviet credit arrangement signed on 9 November. The projects include the development of lignite ore deposits in South India, expansion of coal-mining facilities in eastern India, a heavy machinery building plant, a coal mining machinery plant, and an optical and ophthalmic glass plant.

With the signing of these implementing agreements, greater numbers of Soviet technicians may be expected to arrive in India.

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